CRYPTO COLLECTIBLES & NFTS

THE BEGINNER'S GUIDE

by Nauman Mustafa

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A Guide to Crypto Collectibles and Non-fungible Tokens (NFTs)

Introduction

The creation of Bitcoin introduced the concept of trustless, digital scarcity. Before it, the cost of replicating something in the digital world was next to nothing. With the advent of blockchain technology, programmable digital scarcity has become possible – and it's now being used to map the digital world to the real world.

Non-fungible tokens (NFTs), also often referred to as crypto collectibles, expand upon this idea. Unlike cryptocurrencies, where all tokens are created equally, non-fungible tokens are each unique and limited in quantity.

NFTs are one of the key building blocks of a new, blockchain-powered digital economy. Several projects are experimenting with NFTs for a variety of use cases, such as gaming, digital identity, licensing, certificates, and fine art. What's more, they can even allow fractional ownership of high-value items.

As NFTs are getting easier to issue, more and more of these new types of assets are created every day. This article will dive into what NFTs are, what they can be used for, and how a game called CryptoKitties congested the Ethereum blockchain in late 2017.

What is a non-fungible token (NFT)?

A non-fungible token (NFT) is a type of cryptographic token on a blockchain that represents a unique asset. These can either be entirely digital assets or tokenized versions of real-world assets. As NFTs are not interchangeable with each other, they may function as proof of authenticity and ownership within the digital realm.

Fungibility means that an asset's individual units are interchangeable and essentially indistinguishable from each other. For example, fiat currencies are fungible, because each unit is interchangeable with any other equivalent individual unit. A ten-dollar bill is interchangeable with any other genuine ten-dollar bill. This is imperative for an asset that aims to act as a medium of exchange.

Fungibility is a desirable property for currency because it enables free exchange, and theoretically, there is no way to know the history of each individual unit. However, that isn't a beneficial trait for collectible items.

What if, instead, we could create digital assets similar to Bitcoin, but instead add a unique identifier to each unit? This would make each of them different from all the other units (i.e., non-fungible). Essentially, this is what an NFT is.

How do NFTs work?

There are various frameworks for the creation and issuance of NFTs. The most prominent of these is ERC-721, a standard for the issuance and trading of non-fungible assets on the Ethereum blockchain.

A more recent, improved standard is ERC-1155. It enables a single contract to contain both fungible and non-fungible tokens, opening up a whole new range of possibilities. The standardization of the issuance of NFTs allows a higher degree of interoperability, which ultimately benefits the users. It basically means that unique assets can be transferred between different applications with relative ease.

If you are looking to store and gaze upon the beauty of your NFTs, you can do that in Trust Wallet. Just like other blockchain tokens, your NFT will exist on an address. It’s worth noting that NFTs can’t be replicated or transferred without the owner’s permission – even by the issuer of the NFT.

NFTs can be traded in open marketplaces, such as OpenSea. These markets connect buyers with sellers, and the value of each token is unique. Naturally, NFTs are prone to price changes in response to market supply and demand.

But how can such things have value? Just like with any other valuable item, the value isn’t inherent to the object itself but is rather assigned by people who deem it valuable. In essence, value is a shared belief. It doesn’t really matter if it’s fiat money, precious metals, or a vehicle – these things have value because people believe they do. This is how every valuable item becomes valuable, so why not digital collectibles?

What can NFTs be used for?

NFTs can be used by decentralized applications (DApps) to issue unique digital items and crypto-collectibles. These tokens can either be a collectible item, an investment product, or something else.

Gaming economies are nothing new. And since many online games have already had their own economies, using blockchain to tokenize gaming assets is taking only a step further. In fact, the use of NFTs could potentially solve or mitigate the common problem of inflation that many games have.

While virtual worlds are already flourishing, another exciting use of NFTs is the tokenization of real-world assets. These NFTs can represent fractions of real-world assets that can be stored and traded as tokens on a blockchain. This could introduce some well-needed liquidity to many markets that otherwise wouldn’t have much, such as fine art, real estate, rare collectible items, and many more.

Digital identity is also a sector that can benefit from the properties of NFTs. Storing identification and ownership data on the blockchain would increase privacy and data integrity for many people around the world. At the same time, easy and trustless transfers of these assets could reduce friction in the global economy.

The story of CryptoKitties and Ethereum

One of the first NFT projects that gained significant traction was CryptoKitties, a game built on Ethereum that allows players to collect, breed, and exchange virtual cats.

Each CryptoKitty can have a combination of several different properties, such as age, breed, or color. As such, each of them is unique, and they can't be interchanged with each other. Also, they are indivisible, meaning that there's no way to divide a CryptoKitty token to divisible parts (such as the gwei for ether).

CryptoKitties gained some notoriety after it has congested the Ethereum blockchain due to the high activity it has stirred up on the network. As of February 2020, the All-Time High (ATH) for the number of daily transactions on the Ethereum blockchain is still at around the height of CryptoKitties' popularity. It's clear that the game caused a big impact on the Ethereum network, but other factors also contributed to it, including the Initial Coin Offering (ICO) boom.

While a topic of controversy, CryptoKitties is an entertaining early example of a blockchain use case that isn't a currency, but something used for recreation and leisure. Collectively, these virtual cats moved millions of dollars, and some of the rare units were sold for hundreds of thousands of dollars each.

Popular projects using NFTs and crypto collectibles

Many different projects already use NFTs as collectible and tradable items. Let’s go through a selection of some of the most popular ones.

Decentraland

Decentraland is a decentralized virtual reality world where players can own and exchange pieces of virtual land and other in-game NFT items.

Cryptovoxels is a similar game where players can build, develop, and exchange virtual property.

Gods Unchained

Gods Unchained is a digital collectible card game where cards are issued as NFTs on the blockchain. Since each digital card is unique, players can own and trade them with the same level of ownership as if they were physical cards.

My Crypto Heroes

My Crypto Heroes is a multiplayer role-playing game (RPG) where players can level up historical heroes through quests and battles. The heroes and in-game items are issued as tokens on the Ethereum blockchain.

Binance Collectibles

Binance Collectibles are NFTs issued in collaboration by Binance and Enjin on special occasions.

Crypto Stamps

Crypto Stamps are issued by the Austrian Postal Service and connect the digital world to the real-world. These stamps are used to transport mail like any other stamp. But, they are also saved as digital images on the Ethereum blockchain, making them a tradable digital collectible.

Closing thoughts

Digital collectibles open up blockchain technology to whole new avenues, outside of conventional financial applications. By representing physical assets in the digital world, NFTs have the potential to be a vital part of not just the blockchain ecosystem, but the wider economy.

The use cases are vast, and it’s quite likely that many developers will come up with new and exciting innovations for this promising technology.

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